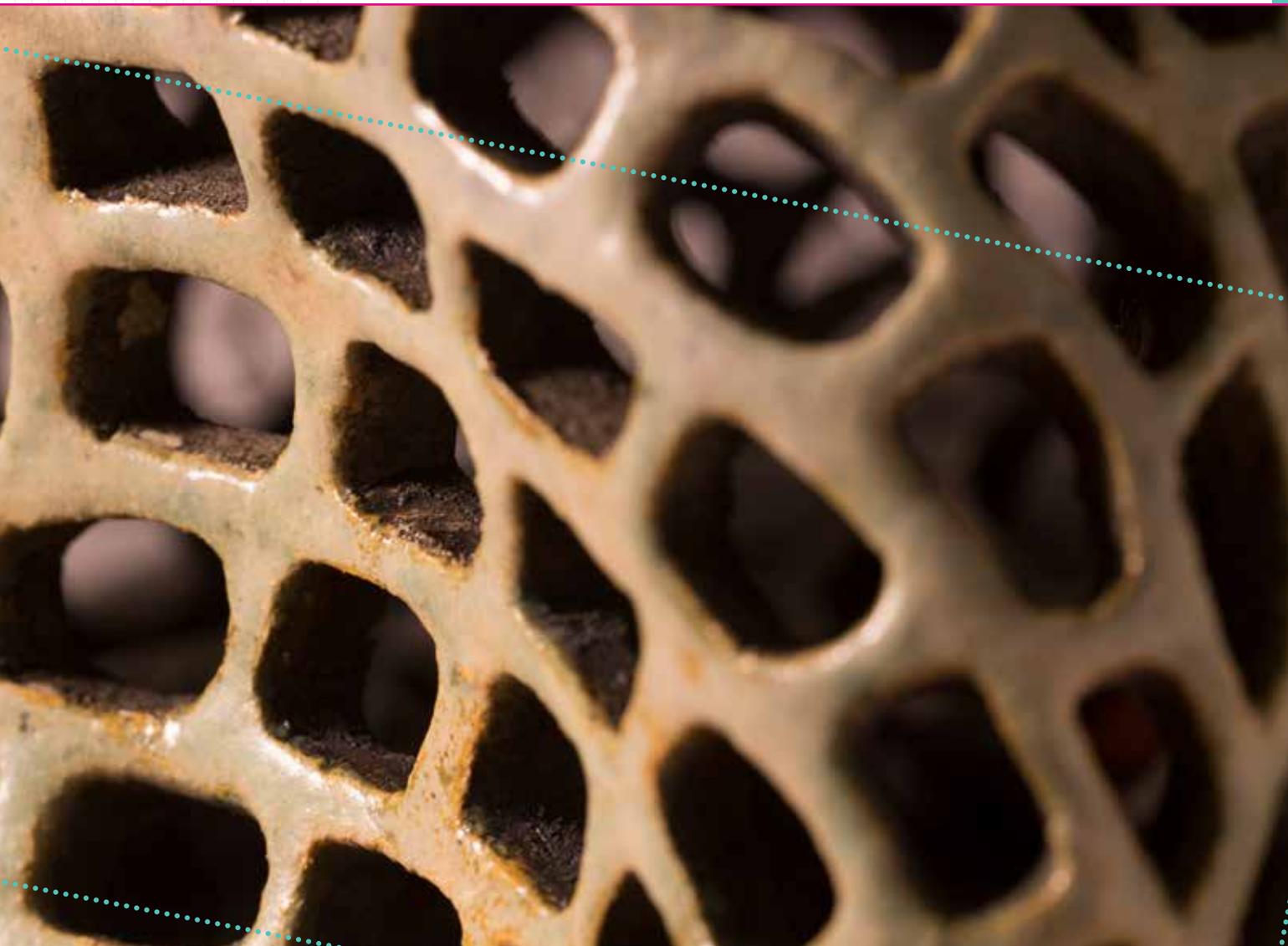


Creative Industries



In order to promote and support the creative and visual arts, this chapter places a particular emphasis on the film and television industry in Puerto Rico. The incentive covers various artistic works, including music videos, short and feature films, advertisements, documentaries, series, events, and more. Moreover, it also benefits businesses that offer services to the film industry, such as production or post-production studios and suppliers. Furthermore, the incentive provides advantages for new infrastructure projects related to the arts and entertainment sector.



For creators or artists who have a following, audience, or performance opportunities beyond Puerto Rico, this incentive program becomes a vital tool for expanding their business. This incentive is often combined with the Export of Services and Goods Incentives (see Chapter 3), which includes design studios, music recording studios, video game developers, digital services, multimedia, and other creative sectors that generate new revenues for Puerto Rico-based companies. By combining both incentives, production activities and international sales may qualify for all the benefits outlined in these provisions.

Eligible Productions/Businesses

9.1

→ Film Projects¹

Film projects typically qualify for tax incentives throughout pre-production, production, and post-production. Expenses incurred during each phase could be eligible for the general benefits and tax credits provided by the incentive program. Some of the film projects designations are the following:

- a. **Short Films**
These are projects with 40 to 60 minutes of screen time.
- b. **Feature Films**
This designation includes feature film productions with a total screen time that exceeds 60 minutes.
- c. **Documentaries or Live Events**
This designation encompasses documentaries or live show productions whose distribution includes markets outside Puerto Rico. Some examples include live broadcasts, beauty pageants, award ceremonies, and shows. Live music events, such as Electric Holiday, have also received this incentive in the past.
- d. **Series or Docuseries**
Episodic series, mini-series, and television programs, including pilots and other projects produced for digital distribution, fall under this designation.
- e. **Advertisements**
This designation includes advertisements filmed

¹ Puerto Rico Incentives Code, Sec. 2091.01, 13 L.P.R.A. § 45871 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



in Puerto Rico. If the production expenses exceed \$100,000 and the distribution is oriented towards audiences outside the island, the advertisements may also apply under said designation. If the total production expenses do not reach the established amount, multiple ads for different clients may be bundled to surpass the minimum production value.

f. **Video Games**

Businesses developing audio, visual effects, and graphics for mobile or video games may apply under this designation. Moreover, the incentive provided may also be stacked with research and development tax credits for all of the software development costs involved (see Chapter 6 for more information).

g. **Television Projects**

This designation includes television productions such as reality shows, talk shows, news, game shows, entertainment, comedy, and children's programs. Famous Puerto Rican shows like *La Comay* and *Atención Atención!* have used this designation for their productions.

h. **Film Festivals**

Any film festival that charges for tickets or entrance cover fees can apply.



i. **Music Videos**

This designation encompasses explicitly short films that visually depict a corresponding song. Since introducing this incentive, several renowned music stars from Puerto Rico, including Tego Calderón and Bad Bunny, have utilized and benefited from it.

9.2

→ **Studio Operators**²

This incentive is intended for companies involved in transforming a script into a final product that is suitable for the screen. It explicitly targets studio operations, post-production businesses, and strategic suppliers.

a. **Studio Operators**

This designation includes studio operators with all the necessary components, staff, equipment, and any other necessary resources to meet the commercial needs of film projects.

b. **Post-Production**

This involves companies dedicated to the post-production of a film project, including finishing touches,

² Puerto Rico Incentives Code, Sec. 2091.01, 13 L.P.R.A. § 45871 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>

special effects, sound mixing, color grading, and other activities.

c. **Strategic Suppliers**

This designation includes suppliers of filming equipment, transportation, and other materials crucial for producing a creative project.

9.3

→ **Development Projects**³

This incentive is intended for companies and developers that will invest in establishing, improving, or expanding infrastructure for the creative economy. In addition, it also provides municipal and state governments the opportunity to develop innovative districts, sectors, and corridors to advance the economic development of this industry.

a. **Infrastructure Projects**

This designation is meant to develop production studios, laboratories, facilities for international transmissions, or other permanent projects through investments towards substantially developing or expanding the industry. The minimum investment requirement is \$500,000.

b. **Creative Industries Development Districts**

This designation is typically granted to corporations or municipalities that aim to develop an economic district. It is reserved for geographic areas of property or real estate dedicated to the advancement of the creative economy through the development, construction, and operation of studios.

Eligibility Requirements

This incentive is available for all types of production, subject to various restrictions.

- » Feature film production costs must be connected to Puerto Rico and of at least \$50,000.
- » Short films and documentaries must have costs of at least \$25,000.

³ <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>

- » Advertisements displayed outside Puerto Rico must have aggregate campaign expenses of at least \$100,000.
- » If post-production work is done in Puerto Rico, the added expenses of the Film Project must be at least \$100,000.

General Benefits

1. The incentive for corporations lasts 15 years. If requested, it can be extended for an additional 15 years, providing a total of up to 30 years of preferential tax treatment to the business. The same term and extension also apply for studio operators and infrastructure developers.
2. For film projects and productions, the incentive lasts for the duration of the activities.
3. The corporate income tax rate is 4%.
 - a. If the eligible business is under 3 years old and has yet to surpass \$3,000,000 in gross revenues when applying for the incentive, it may obtain a 2% corporate income tax during the first 5 years of operations as a new SME (see Chapter 1).
4. The incentive includes a 100% exemption on the sales and use tax for personal property acquired, such as film equipment, cameras, and others necessary for the operation of the business.
5. It has a 75% exemption for personal and real property, municipal and state taxes, and construction excise taxes.
6. There is a 100% exemption from municipal taxes.
7. Donors may contribute up to \$100,000 and deduct up to 25% of their annual tax obligation.

Ineligible Businesses and Activities

1. A production of religious or political propaganda
2. A production including pornographic material
3. Radio shows
4. A production of visual or audio materials to promote a service or product but does not comply with the requirements of an advertisement designation



5. A production whose purpose is to raise funds
6. A production to train employees or conduct public relations for a company or individual
7. Any other project the Secretary of DDEC deems ineligible through circular letters or clauses included in the Puerto Rico Incentives Code

Tax Credits Prioritize the Promotion of Local Artists⁴

To unleash the potential of Puerto Rico's cinema and creative industries, the Incentives Code creates three tax credits for all film projects.

a. **Up to 40% in Tax Credits for Local Productions**

Companies may claim up to 40% in tax credits for all expenses incurred on the island in the pre-production, production, and post-production of film projects in Puerto Rico.

b. **A 20% Tax Credit for Qualified Non-Residents**

This tax credit is reserved for expenses incurred hiring above-the-line (ATL) talent outside of Puerto Rico. ATL

⁴ Puerto Rico Incentives Code, Sec. 2091.01, 13 L.P.R.A. § 45871 (2023).

includes talent, creatives, and employees responsible for creative development, production, and direction. This consists of all personnel required to take a film from an idea to a working script to the screen.

c. **An Additional 15% Tax Credit for Puerto Rico Production Expenses**

An additional 15% tax credit may be granted when a local producer leads a full-length film, documentary, or series. The credit may be claimed if the producer is entitled to 30% of the net income and crew members are Puerto Rican residents. This benefit is capped at \$4,000,000 per film project.

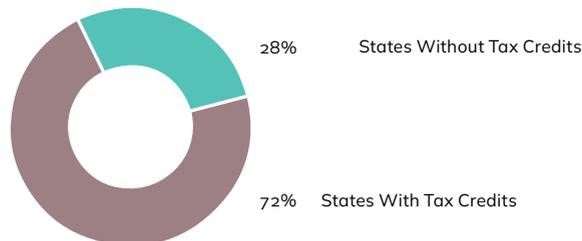
The Incentive's Limitations

The tax credits for films are capped at an industry-wide total of \$38,000,000 per year. This equates to roughly \$95,000,000 to \$152,000,000 in annual film production costs incurred on the island and with off-island talent.

Film Industry Benefits in Puerto Rico vs. The United States

Tax credits for the film industry are not specific to Puerto Rico, though the island's benefits are among the most competitive. Many jurisdictions worldwide, including most states in the United States, promote benefits through grants, credits, and rebates for film productions. The average amount disbursed by these governments stands at an average of 25% of the total production budget. States such as California, Georgia, Louisiana, and Illinois are famous for their competitive benefits that attract producers and film studios.⁵

Film Industry Tax Credits Available in the United States and Jurisdictions



⁵ <https://www.castandcrew.com/services/financial-services/incentives-map/>

Only 38 of all the 50 states, Puerto Rico, and the U.S. Virgin Islands, provide tax credits for the film industry. The remaining 14 have yet to develop an economic development policy for this industry. The disbursement of the established tax credits and benefits is usually delivered in four ways:

1. **Non-Transferable Tax Credits**

These are tax credits that must be used by a company in order to reduce its tax liability to zero and below zero. A company that opts for these credits may not sell or transfer them nor use them as collateral when seeking financing.

2. **Rebates or Grants**

These are cash rebates that the state directly pays to a production company. They are usually a percentage of a company's qualified expenses or paid pro-rata to the state annual budget.

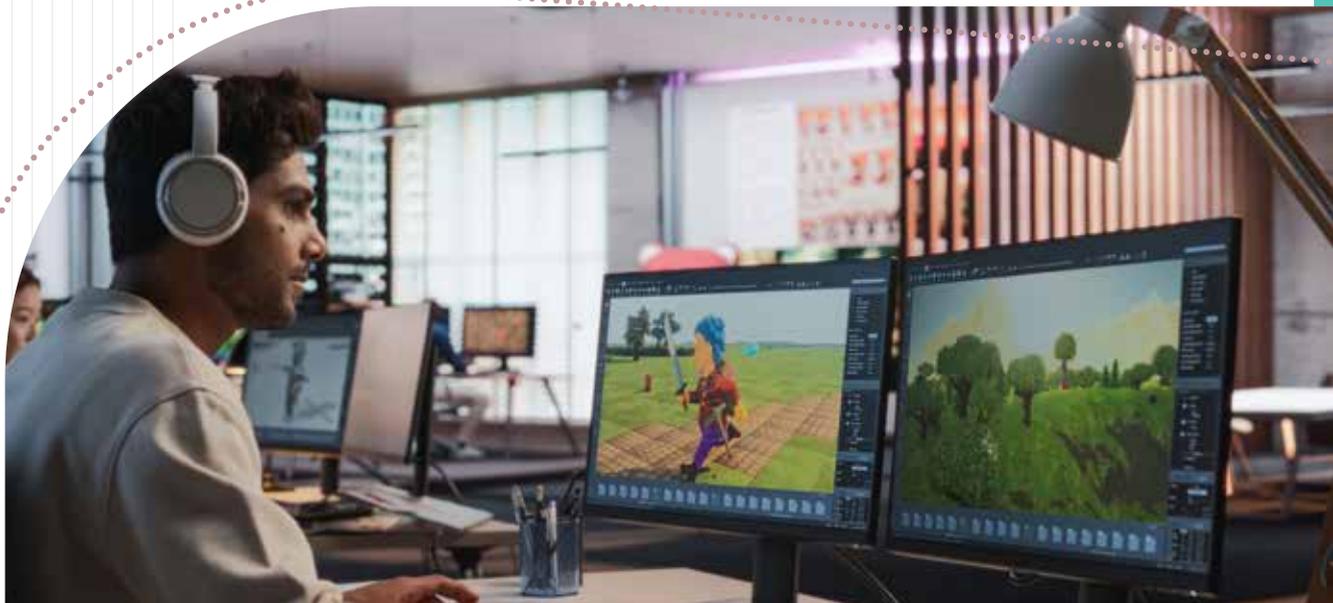
3. **Refundable Tax Credits**

These are credits that allow a company to be refunded its eligible investment no matter how much the tax liability is. These credits can take this liability below zero, and the complete amount is refunded in cash to the company.

4. **Transferable Tax Credits**

These credits reduce a company's tax liability to zero and below zero. A company may sell or transfer these credits to individuals or corporations looking to decrease their tax liability further.

These four types of disbursements have a fundamental impact on the capitalization of each film production. In the same way businesses take out loans and collateralize them with their assets, the type of tax credit, rebate, or grant allows film producers to raise capital, secure financing, and use these amounts as collateral for each production.





The unincorporated territory of Puerto Rico joins 4 states in terms of the total tax credits available per film project. With tax credits ranging from 25% to 40% for eligible projects and the ability to transfer these credits, the Puerto Rico Incentives Code offers competitive production benefits compared to other jurisdictions in the United States

State ⁶	Incentive	State ⁶	Incentive
South Dakota	No benefits	U.S. Virgin Islands	9% - 29%
North Dakota	No benefits	Connecticut	10% - 30%
New Hampshire	No benefits	Nevada	12% - 15%
Missouri	No benefits	Arizona	15% - 25%
Michigan	No benefits	Washington	15% - 35%
Iowa	No benefits	Montana	15% - 35%
Kansas	No benefits	Virginia	15% - 40%
Idaho	No benefits	Nebraska	20%
Indiana	No benefits	Colorado	20%
Alaska	No benefits	Oklahoma	20% - 38%
Wisconsin	No benefits	Georgia	20% - 30%
Wyoming	No benefits	Utah	20% - 25%
Vermont	No benefits	Minnesota	20% - 25%
South Dakota	No benefits	South Carolina	20% - 30%
Florida	No benefits	California	20% - 40%
Delaware	No benefits	Puerto Rico	20% - 40%
Maine	5% - 12%	Washington DC	21% - 35%
Texas	5% - 22.5%	Hawaii	22% - 27%
Oregon	6.2% - 25%	Arkansas	25% - 35%

⁶ This table provides information on the production incentives of each state and territory, as shown on the following website: <https://www.castandcrew.com/services/incentives-map/>. To learn more, visit the Incentives Map provided through this source.

State ⁶	Incentive	State ⁶	Incentive
North Carolina	25%	Maryland	28% - 30%
Massachusetts	25%	Rhode Island	30%
Pennsylvania	25% - 30%	Ohio	30%
New Mexico	25% - 35%	Kentucky	30% - 35%
Mississippi	25% - 35%	New Jersey	30% - 37%
Alabama	25% - 35%	Illinois	30% - 45%
Louisiana	25% - 60%	New York	30% - 40%
West Virginia	27% - 31%		

Illustrative Example

María is a content creator who has garnered a considerable following through her unique insight on Act 60. Her videos emphasize the impact of new residents in Puerto Rico, sparking intense discussions around gentrification.

In order to continue her pursuit of new stories and publications, María opened a Patreon account, launching a subscription service with a tiered structure ranging from \$5 to \$25 per month. In her first year, she gathered an impressive community of over 300 subscribers, each contributing an average of \$15 a month. As she delved deeper into Act 60, she started to understand the intricacies of the economic development tools involved, including the provided tax incentives, which she learned could also benefit her as a young entrepreneur.

Having begun her revenue stream through the subscription service, she could not apply for the Young Entrepreneurs incentives (see Chapter 10 for more information). Instead, she used the funds she had accumulated over the previous year and embarked on a mini-series project to discuss the issues she perceives as prevalent in Puerto Rico. Investing \$72,000 from her subscription business, she applied for service export incentives under the creative industry designation, including creative industry film projects.

María's goal is to create six episodes that shed light on Puerto Rico's structural challenges and the organizations committed to addressing them. In doing so, she aims to lower her tax liability on subscription income and mitigate the entrepreneurial risks associated with her film projects. By adopting these strategies, she is positioned to receive a 40% tax credit on production expenses and a 15% tax credit for the intellectual property that comes with her scripts. Consequently, her production could benefit from over \$39,000 in tax credits, all while spotlighting grassroots leaders and issues of concern for the island.

This newfound understanding of leveraging these incentives is poised to significantly reduce María's corporate income tax from over 18% to a mere 4% annually for the next 15 years. By doing so, she not only recognizes the benefits of establishing a business in Puerto Rico but also understands the possibility of claiming tax credits for future productions, which could eventually enhance her financial outlook as well.

Cost to File

The estimated cost to file a decree for creative industries incentives is \$1,005. This applies to film projects, studio operators, and infrastructure projects, as well as Creative Industries Development Districts. This sum does not consider additional costs for service professionals, accountants, and attorneys.

Cost to File		
Filing	Transaction Fee	Service Fee
Film Project	\$5	\$1,000
Studio Operator or Infrastructure Project	\$5	\$1,000
Creative Industries Development District Designation	\$5	\$1,000

